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SUBJECT: LITHUANIA'S NEW BUDGET INCREASES DEFENSE SPENDING,  
BUT LAGS BEHIND NATO COMMITMENTS

¶1. (SBU) Summary. Minister of Defense Juozas Olekas told the Ambassador that Lithuania's 2007 budget meets the Defense Ministry's goal of programming an increase in defense spending as a percentage of GDP of .05 percent, to 1.25 percent. While this is technically accurate due to modest official forecasts of GDP growth, defense spending is rising more slowly than the budget as a whole and too slowly to meet Lithuania's defense transformation needs. End Summary.

Defense spending increases less than other spending  
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¶2. (SBU) Lithuania's Defense Minister told the Ambassador December 13 that he was "satisfied" with Lithuania's recent defense allocation, but added that the government has committed to supplemental defense allocations with revenues from the anticipated sale of the Mazeikiu Nafta oil refinery. Lithuania's 2007 budget allocates 1.115 billion litas (USD 413 million) to the Defense Ministry and an additional 5 million litas (USD 1.85 million) to other defense spending based on the NATO definition, representing a 14.5 percent nominal increase in defense spending. This is less than the overall increase in budget expenditures of about 21 percent. The budget also allocates 4 million litas to civilian assistance projects administered by the MFA in Ghor province, where Lithuania leads a Provincial Reconstruction Team.

Economic growth outpaces growth in defense spending  
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¶3. (U) The GOL has publicly committed to meet NATO's unofficial defense spending floor of two percent of GDP by increasing spending as a percentage of GDP by .05 percent per year. Had the budget met this goal since Lithuania joined NATO, defense spending would be 1.32 percent of GDP in 2007. In fact, defense spending as a percentage of Lithuania's surging GDP has been falling. Defense spending for 2006 will likely be only 1.20 percent of GDP, rather than the 1.28 percent that was programmed, down from 1.42 percent and 1.27 percent in 2004 and 2005, respectively. This is largely because Lithuania's GDP growth will exceed the 2006 budget's forecast of seven percent in real terms. (Nominal GDP growth is forecast to be 14.5 percent in 2006.) Similarly, real defense spending in 2007, forecasted at 1.25 percent of GDP, could turn out to be lower (or higher) depending on the economy's performance in 2007. The budget forecasts a 6.3 percent rise in real GDP (10 percent rise in nominal), which would be the smallest economic expansion in Lithuania since 2002, and is below estimates by the Economist Intelligence Unit and IMF.

Defense Ministry: more money needed to meet goals  
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14. (SBU) Lithuania's Ministry of Defense has kept up spending to support its overseas commitments and to make sure that donated equipment is employed effectively. Lithuania will take over funding of the Ghor Province PRT from the United States beginning January 2007. As a result, Lithuania's 2007 budget for international operations is slated to reach 90 million litas (about USD 33 million), approaching Lithuania's informal limit for operations of ten percent of total defense spending. Much of the increase will go to U.S. defense contractor Kellogg, Brown and Root, which the Lithuanians have contracted to provide support to the PRT at least until November 2007. Also, Lithuania has budgeted for upcoming training, shipping, fuel, spare parts and cryptography equipment for two minesweeper ships to be transferred under the DOD Excess Defense Articles program.

15. (SBU) Lithuania's defense spending is not rising fast enough to meet some of its other needs. Post's Defense Attache has noted the curtailment of training ambitions over the past year, including the cancellation of the Lithuanian Navy's participation in the BALTOPS multinational maritime exercise because of the lack of funds for fuel. Similarly, enrollment has been steadily declining, due to lack of funding, at many of the courses provided by the Reconnaissance School. In other cases, the Lithuanian Armed Forces have acquired weapons systems, such as 120mm mortars, but have not funded the spare parts necessary for maintenance or the training required for crews. The defense budget shortfalls also have a negative effect on the planned modernization of logistics capabilities. As Lithuania works to stand up a second deployable battalion task group by 2009, it will struggle at current funding levels to create the necessary combat service support structures to sustain such a unit in the field.

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Comment  
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16. (SBU) Despite its modest size, Lithuania continues to be a stalwart ally. At the same time, to meet NATO's need for interoperable, sustainable, and deployable forces, the GOL needs to provide enough resources to ensure that its transformation and modernization needs are met -- which in our estimation requires more funding than has been forthcoming. We will continue to press this issue with Lithuanian interlocutors at all levels.  
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